



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0173	Title:	Revise weighted average discount ratio for liquor stores
Primary Sponsor:	Cordier, D.	Status:	As Introduced-Revised

- | | | |
|-----------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
Proprietary Fund	\$73,156	\$67,104	\$67,104	\$67,104
Revenue:				
General Fund	(\$493,911)	(\$665,698)	(\$706,403)	(\$749,875)
Net Impact-General Fund Balance	<u>(\$493,911)</u>	<u>(\$665,698)</u>	<u>(\$706,403)</u>	<u>(\$749,875)</u>

Description of fiscal Impact: This legislation would require the state to reimburse agency liquor stores for the actual case discounts rather than basing the reimbursement on the 1994 weighted average for case sales. The reimbursement for the actual discount is higher than the reimbursement based on the 1994 sales.

FISCAL ANALYSIS

Assumptions:

- Under current law, the state reimburses agency liquor stores for the case discount given to taverns based on the amount of case sales in FY 1994. The proposed law would change the reimbursement formula so that agency liquor stores are reimbursed based on the actual case sales.
- In October 2006, the latest month for which full data is available, agency liquor stores received reimbursements for case discounts equal to \$154,347.
- Agency stores were recently asked to voluntarily report the actual case discounts given to the Department of Revenue. The total amount of actual case discounts voluntarily reported during October 2006 was \$198,080. This figure is not audited and reporting was not mandatory. Because some agency stores chose

not to report actual case discounts, the reported figure for the case discount is likely lower than the actual figure. However, for the purposes of this fiscal note, it is assumed that the actual case discounts total \$198,080.

4. The difference between the actual case discounts given, \$198,080, and the discount reimbursement provided by the Department based on the 1994 sales ratios, \$154,347, is \$43,733 (\$198,080- \$154,347). The state would experience a revenue loss equal to \$43,733 each month in FY 2007.
5. Multiplying the difference by twelve results in the estimated fiscal impact for each fiscal year. Liquor sale revenues would be \$524,796 (\$43,733*12) less in FY 2007, which is used as the base for this analysis.
6. It is assumed that the cost of this legislation grows with liquor profits. The projected growth in liquor profits and liquor discounts for FY 2008 and FY 2009 is included in the proposed HJR 2. The growth rates used for FY 2010 and FY 2011 are the average rates between FY 2008 and FY 2009. The percentage growth between years is applied to the liquor discount difference estimated for the base year of FY 2007. Estimated revenue and growth rates are shown in Table 1. In FY 2008 the loss in revenue is calculated for three quarters of the fiscal year because the bill does not specify an effective date, so the effective date is assumed to be October 1, 2007.

Revenue Loss from HB166 Liquor Discount					
Fiscal Year	Base	2008	2009	2010	2011
Percent Change		6.9%	6.7%	6.8%	6.8%
Loss in Revenue	(\$524,796)	(\$420,755)	(\$598,594)	(\$639,299)	(\$682,771)

7. Funding for one FTE would be required to audit the case discounts reported by agency stores. The administrative costs associated with this FTE will be \$73,156 in FY2008 and \$67,104 in FY 2009 through FY 2011. These costs include \$54,708 for personal and about \$12,000 for operating expenses which includes \$10,000 budgeted for travel. In FY 2008, \$6,700 is included for equipment.
8. The expenditure will be made from the proprietary fund which results in a reduced revenue transfer to the state general fund.
9. The total general fund impact for this legislation is a loss of \$493,911 (\$73,156 + \$420,755) in FY 2008, a loss of \$665,698 (\$67,104 + \$598,594) in FY 2009, a loss of \$706,403 (\$67,104 + \$639,299) in FY 2010, and a loss of \$749,875 (\$67,104 + \$682,771) in FY 2011.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
FTE	1.00	1.00	1.00	1.00
<u>Expenditures:</u>				
Personal Services	\$54,708	\$54,708	\$54,708	\$54,708
Operating Expenses	\$11,748	\$12,396	\$12,396	\$12,396
Equipment	\$6,700	\$0	\$0	\$0
TOTAL Expenditures	<u>\$73,156</u>	<u>\$67,104</u>	<u>\$67,104</u>	<u>\$67,104</u>
<u>Funding of Expenditures:</u>				
Proprietary Fund (06)	\$73,156	\$67,104	\$67,104	\$67,104
TOTAL Funding of Exp.	<u>\$73,156</u>	<u>\$67,104</u>	<u>\$67,104</u>	<u>\$67,104</u>
<u>Revenues:</u>				
General Fund (01)	(\$493,911)	(\$665,698)	(\$706,403)	(\$749,875)
TOTAL Revenues	<u>(\$493,911)</u>	<u>(\$665,698)</u>	<u>(\$706,403)</u>	<u>(\$749,875)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$493,911)	(\$665,698)	(\$706,403)	(\$749,875)

Long-Range Impacts:

1. The revenue loss would continue to grow as liquor sales grow.

Technical Notes:

1. This legislation does not specify when the Department must reimburse agency liquor stores. The discount is currently subtracted from the amount due on the invoice, which the agency store has 60 days to pay. This legislation amends 16-2-201, MCA, to specify that the Department calculates the discount on a monthly basis and that a credit is applied. However, it does not specify when the Department should apply the credit.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date